



Financial Management Systems Improvement Council
Meeting Notes
Gallery Three Room
Arlington Hilton & Towers Hotel
Arlington, VA
July 18, 2000

Attendees: Tom Baranouskas-PNNL, Ralph Bonner-SNL, Jim Campbell-DOE-HQ, Bruce Chrisman-Fermilab, Paul Grefenstette-WSRC, Jim Herring, LANL, Jim Lopez-LLNL, Jim Martin-DOE-OR, Brian Morishita-INEEL, Dean Olson-DOE-AL, Paul Rosenkoetter-INEEL, Ron Ragland-LMES, Brian Sack, BNL
Not present: Allan Johnston-LANL, Paul Keele-DOE-ID
Guests: Gary Concannon-SNL, Mark Israel- BNL, Phil Schultz

Jim Campbell:

NNSA Update

Current Status of the Organization

- NNSA formally began operation effective March 1, 2000.
- On March 2, the Secretary announced that the President intended to nominate Air Force General Gordon to serve as the new Under Secretary for Nuclear Security and NNSA Administrator.
- General Gordon has been confirmed and a public swearing-in ceremony was hosted by the Secretary on July 12, 2000.
- Acting Deputy Administrators are Giaconda for Defense Programs, Gottemoeller for NN, and Bowman for Naval Reactors.
- On March 9, the President announced his intent to nominate Madelyn Creeden (currently counsel for minority staff of the Senate Armed Services Committee) as Deputy for Defense Programs.
- As of March 1, about 2000 DOE employees were realigned to become employees of NNSA.

This includes employees of DP, MD, NN, AL, and NV, as well as most employees of NR, PNR, SNR, and some other employees mostly at OR, OAK, and SR.

- The Department's staff offices will continue to provide business, administrative, financial, and other support services to NNSA. The day to day routine will remain unchanged.
- In general, all statutes, regulations, delegations, and directives, including policy statements, orders, notices, manuals, guides, and technical standards applicable to DOE that were in effect before March 1 will continue to apply to Departmental functions and activities that have been transferred to NNSA. The FMC and other corporate management processes will continue in full force and effect.

FY 2001 Congressional Budget

- On the budget front, a separate budget for NNSA was included as part of the Department's Congressional budget submission for FY 2001 with two appropriations - Weapons Activities and Other Nuclear Security Activities . The budget only included the activities of Defense Programs, Nonproliferation and National Security, Fissile Materials Disposition, and Naval Reactors. Funding for the Office of the NNSA Administrator (and its staff to support legislative affairs, public affairs, intergovernmental liaison, budget, and procurement) was not specifically identified in the FY 2001 budget request. However, it is my understanding there was language in the budget indicating funding would be provided for the Office of the Administrator within the NNSA budget amounts. Also, for FY 2002, funding will be included in the budget for the Office of the Administrator.

NNSA Implementation Team

- With General Gordon on board, the NNSA Implementation Team has been terminated. These functions will be taken over by NNSA staff, including NA-1, the designation for the Office of the Administrator.
- Efforts are underway to update all directives to incorporate specific references to the NNSA, as appropriate.

In addition, the Secretary wants all delegations of authority updated by the end of the fiscal year to ensure consistency with the establishment of the NNSA FY 2001 NATIONAL DEFENSE AUTHORIZATION ACTION

House Action (H.R. 4205) – Language Provisions

Future-Years Nuclear Security Program (5-year plan)

- Section 3133 would prohibit the obligation of more than 50 percent of funds authorized for appropriation for program direction within NNSA until 30 days after the Administrator provides Congress with the required future-years nuclear security program.

Availability of Funds

- Proposes three-year money for NNSA programs except program direction, which is proposed as one-year money.

Senate Action (S. 2549) – Language Provisions

Future-Years Nuclear Security Program (5-year plan)

- Requires a future-years nuclear security program by November 1, 2000. Would limit program direction obligations to 65 percent appropriated until 45 days after it is received.

Availability of Funds

- Proposes no-year money for NNSA program except program, which is proposed as three-year money.

Term of Office for the First NNSA Administrator

Provides a three-year term. Administrator may be removed only for inefficiency, neglect of duty, or malfeasance in office. (Administration strongly objects to removal provision.)

Limitations on Secretary to Reorganize the NNSA

Section 3219: "Notwithstanding the authority granted by section 643 of the Department of Energy Organization Act (42 U.S.C. 7253) or any other provision of law, the Secretary of Energy may not establish, abolish, alter, consolidate, or discontinue any organizational unit or component, or transfer any function, of the Administration, except as authorized by subsection (b) or (c) of section 3291."

Elimination of Dual-Hatting

Section 3134 would prohibit paying personnel who serve or perform duties within the NNSA and outside the NNSA.

FY 2001 ENERGY & WATER DEVELOPMENT APPROPRIATION ACTION House Action (H.R. 4733)

Account Structure

Retains Atomic Energy Defense Activities (AEDA) account group

Creates National Nuclear Security Administration account group under AEDA

Creates three NNSA accounts:

Weapons Activities

Defense Nuclear Nonproliferation

Naval Reactors

Availability of Funds

Consistent with H.R. 4205, the bill would provide three-year money to Weapons Activities, Defense Nuclear Nonproliferation, and Naval Reactors.

National Security Programs Administrative Support

Provides \$51 million for administrative support for national security programs including support within the Offices such as the Secretary, Deputy Secretary, and Under Secretary, the General

Counsel, Chief Financial Officer, Human Resources, Congressional Affairs, and Public Affairs, and the new offices to be established in the NNSA.

Senate Action

Account Structure - same as House

Availability of Funds - No Year

Provides \$10 million for an NNSA Office of the Administrator - new account in Other Defense Activities Appropriation

FY 2001 MILITARY CONSTRUCTION APPROPRIATIONS

Conference Action (H.R. 4425)

Term of Office for the First NNSA Administrator

No provisions affecting the term of office for the first NNSA Administrator enacted. (Senate provision of a three-year term for the Administrator dropped in conference. Also Senate provision that the Administrator may be removed only for inefficiency, neglect of duty, or malfeasance in office dropped in conference.)

Overhead Reviews

Background

- FY 2000 House Energy and Water Development Committee Report directs the Department to “review the costs included in the overhead charges of the management and operating contractors and report to the Committee on the reasonableness of these charges. In addition, the Department should determine which charges should more appropriately be funded as direct program costs. The report raises concerns with inconsistent treatment of security investigation costs, the costs of M&O contractor offices in Washington, and centers of excellence.
- Discussions with Committee staff regarding this Congressional requirement indicated a strong concern that the Department employees (program/project managers) do not know what it is paying for in contractor overhead and if these expenditures are in the best interest of the taxpayer. Further, the Congress was concerned that the Department was funding activities out of overhead that they were unaware of. Areas specifically mentioned were contractors spending time in Washington lobbying, marketing to OFA’s, seeking add’l funding from the Department, security investigations being funded direct but charged as an indirect by certain contractors, a university consortium funded in overhead that may more properly be funded as a direct cost under an education program, inequitable overhead distributions at one of our Federal sites, and centers of excellence - are the expenses proper, benefitting to taxpayers, and should they be funded direct or indirect. Other issues have apparently been raised as a result of the external independent project reviews mandated by the Congress.
- To comply with the Congressional direction and as one of his management initiatives, the Secretary announced on March 15, 2000 that the Chief Financial Officer will establish a formal program to review the overhead costs incurred by our site operating contractors. In year one, the Secretary determined this initiative would encompass the nine multi-program national laboratories and the larger site operating contractors, and would be expanded to the remaining contractors over the next 2 years.
- The FY 2001 House Energy and Water Development Report included instruction to keep the Committee informed on the Department’s progress in conducting the overhead reviews.

Coordination Process

- To comply with the Secretary’s direction, the CFO developed guidance and on March 24, 2000 issued through the Field Management Council for Departmentwide review and comment. At about the same time, a conference call was held with the field CFOs to discuss the guidance.
- A number of concerns were raised by the field in this conference call and in the

coordination with the Lead Program Secretarial Officers. Additionally, the guidance was discussed with the field CFOs as part of a one day meeting in Washington on April 13. The guidance was appropriately revised and issued on May 2, 2000.

Requirements

- The objective of the review is to ensure that Headquarters and field offices understand the nature of costs included in the contractors' overhead and the development and application of overhead rates.
- The review should not duplicate work already performed by the field offices to review overhead. In fact, field offices are encouraged to use existing reliable information from recent reviews or validations performed.
- Field CFOs will provide a written report to field office managers stating that in the CFO's opinion the overhead categories of costs as provided by the contractor are reasonable and appropriate. In addition, the field CFOs are to assert that the methodologies used by the contractor to allocate these costs, as described in the Contractor's CAS Disclosure Statement, are appropriate and in accordance with CAS.
- The CFO should identify any costs that appear to be excessive or inconsistent with the contractors' mandate to manage DOE facilities. This may include activities that the field office manager believes could be construed by Departmental or Congressional officials as being an inappropriate use of Departmental funds, inappropriate funding of a direct program through overhead, etc.
- Each activity identified should be accompanied by an explanation of the purpose of the activity and the benefits to be derived from this expenditure of Federal funds. The report should also describe the Field office's systems and processes for oversight of contractor costs.

Scope

- For this fiscal year, the scope of the review will cover general and administrative expenses, common site support, and other overhead as defined by FMSIC. Organizational burden and service center costs will be provided as aggregate figures, but analysis will be deferred until next year's review (with additional guidance to be provided).
- Within this overall structure, contractors should disclose each overhead pool as defined in that contractor's CAS Disclosure Statement.
- Within each pool, contractors should provide to the field CFO the specific activities contained in each overhead pool. The activities should be consistent with the contractor's WBS/chart of accounts and be reported at the lowest level at which the contractor budgets. If this level is not sufficient to facilitate an understanding of the

nature of the activities funded, contractors should expand the level displayed and the discussion to provide the necessary insight.

Field Office Reporting to Headquarters

- A copy of the report prepared by the field CFO for the manager.
- For each overhead pool, a description of the cost allocation base and an explanation of how the resultant rates are calculated and applied, accompanied by a certification by the field CFO that such rates are appropriate and reasonable.
- Input, based on FY 1999 actuals, on each contractor's practices for allocation of overhead to work authorized by one DOE contractor for performance by another DOE contractor.

Time Period for the Review

- Field Offices will have two months (June 30) to complete the reviews and report to Headquarters.

Headquarters Role

- CFO (Budget and Accounting) and Programs to participate in reviews at each of the field offices. With the exception of SR, reviews will be primarily focus at the field office, but if the review team needs additional information, may go to the contractors for explanations.
- Purpose - (1) Build the Headquarters expertise, knowledge and understanding of overhead and activities at each site, (2) ensure some level of consistency and comprehensiveness in reporting at each site, and (3) provide the basis for the Department's report to the Congress.

Other

- In their audit plan for FY 2001, the IG has identified the conduct of overhead reviews. We hope that the work already performed by the contractors and the Department would mitigate the IG's efforts in this area.

Budget Results Council

- Tom Foley was introduced as a new BRC member. The INEEL and NNSA requests for representation on the BRC were considered. The Council decided to invite Jerry Hammond, DOE-AL to represent NNSA and to defer the INEEL request for membership until a later time. It was also decided that Buddy Garland-EE and Jan Hogler-National Energy Technology Laboratory, would be the next HQ and field office representatives.

- Best Practices. Various methods including the FMSIC Clearinghouse and video teleconferences will be used to disseminate best practices. It was decided not to present a best practice award.

Topics to be addressed by the BRC:

- *BMIS* – Tom DeHanas will represent the budget interests on BMIS-FM. Nikki Grover and Jeffrey Fernandez also volunteered to assist with this effort.
- *Responsiveness to Congress* – This topic was discussed by the Council and was tabled.
- *Safeguards and Security* – The cost of work for others needs to be looked at. Jeffrey Fernandez (LLNL) will lead a working group to do this and the group will include Jim Herring (LANL) and Edward Knuckles (OAK). This effort needs to be coordinated with Bonnie Apodaca (SNL) who is leading a similar group for FMSIC.
- *Reprogramming* - Much has been done to establish a revised process at HQ for expediting reprogramming actions. Lyn Henderson went through a listing of actions already taken to improve the process. However, in order to more fully explore opportunities for improvement, HQ was looking for a volunteer from the Field to spend a couple of weeks researching recent reprogrammings that proved problematic. This research would provide insight into other potential process changes that could prove beneficial. EM was noted as having several recent reprogrammings that proved tougher than normal. John Pescosolido (SR) was tasked with seeing if he could find a Field volunteer to do this research.
- *Operating/Capital* – Matt O'Brien will take the lead for the BRC. This effort also needs to be coordinated with FMSIC.
- *Training (website)* – Tom Foley will lead a working group with Jon Mathis (HQ) and Paul Anderson (SR) on the team. The intent is to promote financial management training utilizing existing training modules developed by DOE and DOE contractors.
- Next BRC Meeting will be held on September 28, 2000, Washington, D.C.

Audited Financial Statements

Results of IG Audit of FY 1999 Financial Statements

- Department received an unqualified opinion on the IG's audit of our FY 1999 financial statements.
- The Office of CFO sincerely appreciates Federal and contractor efforts leading to this clean opinion and specifically acknowledges the partnership with the EM community to resolve the material internal control weakness regarding the support for our

environmental remediation liability estimate. You are cautioned that this continues to be an area of major concern to both the IG and to GAO.

- The IG's FY 1999 audit identified one material weakness and three reportable conditions. The material weakness involved the implementation of a new accounting system at one of our Federal sites and a determination the system did not comply with Federal financial management system requirements and, therefore, amounted to a noncompliance with the Federal Financial Management Improvement Act. The CFO received two recommendations resulting from this finding: 1) monitor the implementation of corrective actions at that site, and 2) approve the implementation of new financial management systems that could materially impact the Department's financial statements before disengaging the systems being replaced. While the recommendation does not specifically address contractor accounting systems, CFOs should be actively involved in these system development efforts to reduce the potential for serious problems.
- The three reportable conditions involve: 1) Errors in the input data (facility model type, inclusion of facilities that were not contaminated, exclusion of facilities that were contaminated, errors in the square footage of facilities) impacting the environmental liability for active facilities (the error rate in the IG's sample was about 16 percent - fortunately the errors netted to something much smaller - amount of liability DOE wide is \$25 B). Please coordinate with your property management personnel to ensure the data entered by the contractors and approved by DOE management is accurate, 2) unclassified computer security, and 3) performance measurement reporting.
- From a government wide standpoint, DOE was one of only 13 of the 24 largest Federal agencies that received an unqualified audit opinion. In fact, Comptroller General Walker congratulated the Department for improving weaknesses in its financial statements.
- The Department received a B- in Congressman Horn's scorecard of agency performance. This scorecard takes into consideration the audit opinion, compliance with internal control standards, and compliance with law. Only two agencies received a better grade than Energy - NASA and NSF.

Plans For FY 2000 Audit

- The IG announced that KPMG will assume complete responsibility for the FY 2000 financial statement audit. Since KPMG has performed considerable aspects of financial statement audit work in the past, we should already have a good working relationship, and hopefully things will go smoothly.
- The audit opinion will be KPMG's, but subject to IG review.
- KPMG, based on prior audit work, concludes inherent risk for the Department's overall financial activity is low. However, they also conclude that the inherent risk of

the environmental liability is high. They will be focusing on the material weakness and the three reportable conditions identified in the FY 1999 audit. With regard to the active facilities, they will visit the sites where problems were identified last year as well as other selected sites.

Safeguards & Security Update

Background

- August 31, 1999—Deputy Secretary Glauthier announced that beginning in FY 2001 safeguards and security (S&S) activities will be direct funded within the Office of Security and Emergency Operations (SO)
- October 20, 1999—Chief Financial Officer (CFO) issued guidance to calculate and realign S&S funds (direct and indirect) budgeted for in other DOE programs
- Goal of CFO Guidance—Propose funding transfers to set up a S&S budget resulting in a “net zero” effect on programs
- Fall/Winter of CY 1999—Offices recalculated FY 2000 and FY 2001 budgets to treat S&S as a direct program
- Contribution from Work for Others (WFO) included as part of the recalculation

Congressional Budget Amendment—FY 2001

- May 2000—The Department submitted a formal amendment to the FY 2001 Congressional Budget
 - Purpose—Consolidate S&S funding within SO and address concerns of the Department, Congress, and the general public about DOE security
 - Expectation—Provide centralized management, direction, tracking, and monitoring of S&S costs
- Establishes separate S&S lines in seven of the Department’s appropriations
- Provides for recovery of approximately \$40 million in S&S costs from WFO customers
- With few exceptions, results in offices receiving S&S funding in only one appropriation

| | Total | Proposed Reimbursable Offset | Total After Offset |
|---------|---------|------------------------------------|-----------------------|
| Weapons | 406,434 | (28,838) | 377,596 |

| | | | |
|-------------------------------------|---------------|----------------|---------------|
| Defense ERWM | 208,992 | (5,244) | 203,748 |
| Defense Facilities Closure Projects | 54,772 | — | 54,772 |
| Other Defense Activities | 344,015 | (712) | 343,303 |
| Science | <u>54,940</u> | <u>(5,122)</u> | <u>49,818</u> |
| Total EWDA | 1,069,153 | (39,916) | 1,029,237 |
| | | | |
| Fossil Energy | 1,904 | — | 1,904 |
| Energy Conservation | 1,304 | (33) | 1,271 |
| Strategic Petroleum Reserve | <u>9,971</u> | <u>—</u> | <u>9,971</u> |
| Total Interior | 13,179 | (33) | 13,146 |
| | | | |
| Total DOE | 1,082,332 | (39,949) | 1,042,383 |

Recovery from Work for Others

- Challenge
 - Identify methodology to recover S&S from WFO to comply with full cost recovery requirements of the Economy Act (Federal WFO) and OMB Circular A-25 (non-Federal WFO)
 - Provide visibility in the Department's Accounting System of total site S&S costs
 - Minimize impact on Federal and contractor resources and systems
 - Address contractor compliance with Cost Accounting Standards (CAS)
- FMSIC/BRC Working Group established to examine this issue

Issues Raised by Working Group

- Will S&S be funded as a direct program for more than one year?
- Will the Department fund total S&S activities in the future?
- Accounting implementation mechanism to allocate S&S costs to WFO, while unwieldy, is possible. CAS violation issues are unavoidable.
- No guarantee that S&S collections at a specific site will be redistributed back to the site.

- WFO customers have a stronger position for requesting waivers/exemptions from S&S.

Potential Solutions Identified by Working Group

1. **DOE assumes full financial responsibility for funding S&S activities with no recoveries from WFO.**
2. **A unique overhead rate for WFO customers is implemented at each site to collect S&S costs not funded by the Department from WFO projects.**
3. **A system, something like a service center, is developed to identify which projects benefit from S&S and charge all those projects some pro-rata share of the S&S.**
4. **The Federal administrative charge (FAC) is increased to recover S&S from WFO customers.**
5. **Decision to fund S&S as a direct program is reversed, and the Department reverts to the current process.**

Working Group Recommendation

Increase the Federal Administrative Charge.

- Allows Congress to appropriate the entire S&S budget and the department to return recoveries from WFO to the Treasury.
- Avoids perturbations caused by unforeseen changes in WFO levels within a site and across DOE.

CFO Concerns with Recommendation

- Does not provide the Department with gross S&S funding. Site S&S requirements still dependent on recovery from WFO.
- May create inequities between sites, as the S&S component of the FAC could vary considerably from the indirect rate established at each site.
- Requires legislation to increase the FAC above the statutory three percent ceiling.

Alternative Proposal

- General
 - Establish individual contractor indirect rates to recover the causal/beneficial share of S&S costs from WFO.
 - Apply indirect rate on a monthly basis to all WFO costs incurred with collections retained by the contractor to fund site S&S activities.

Retain any recoveries in excess of “budgeted” reimbursements at the

Jim Lopez:

IWO

Jim Lopez wrote a position paper that included the following issues: (a) raising the IWO threshold to \$250,000. This recommendation should be in effect within a couple of days. Another option is to raise the MPO level to \$500K and above but is considered an AFP change. (b) Indirect charges – undecided on performing contractor and/or authorizing contractor charging indirect costs. (c) Should authorizing or performing sites LDRD charges? (d) Reconcile balances. (e) Use of standard forms for some sites use IWO's for MPO's. Recommendations included (1) No further action should be taken because of sufficient differences among contractors. Also, if BMIS FM can handle AFP changes, then eliminate the \$500K threshold. (2) LDRD should not be charged by both the performing and authorizing sites. (3) Mandating the use of a standard form requires OMB approval and all were in agreement of a standard form.

Action: Jim Lopez will distribute the proposed form to the FMSIC members for comment and Jim Campbell will review the current policy.

Ralph Bonner:

Replacement Member for Rocky Flats

A discussion was held regarding the replacement of Kaiser-Hill Rocky Flats who announced their withdrawal from FMSIC membership. An analysis of the current members was conducted to determine which program and DOE offices were represented.

DP

Los Alamos
Lawrence Livermore
Sandia

SC

Brookhaven
Pacific Northwest
Fermi

EM

Idaho
Savannah River

DOE

Headquarters
Albuquerque
Oak Ridge
Idaho

It was decided that the Council will remain at nine contractor members and not add a tenth member.

Brian Morishita

FMSIC Clearinghouse Budget

Brian Morishita requested a budget for the FMSIC Clearinghouse for FY-2001 of \$160K. An additional \$11K was added to the budget to hold in reserve if members decide to use a consultant making the total budget for next year to be \$171K. The nine contractor members will be assessed \$19K each for the next fiscal year.

Brian Morishita

FMSIC/BRC ANNUAL CONFERENCE

The 2001 FMSIC/BRC Annual Conference will be held at the Arlington Hilton and Towers, Arlington, VA, March 7 & 8, 2001 with a Council scheduled for March 6. Possible presenters/topics for the conference are Jeannie Wilson, CFO, OMB rep, NNSA, BMIS FM, Gartner Group on electronic commerce/business to business, internet business (how the internet will save money through the usage of intranets), status of the market place for ERP vendors such as PeopleSoft, Oracle, and SAP, DOE Long Range Plan, Benchmarking, Reengineering, and the BRC.

Action: Ralph Bonner and Jim Lopez will take the lead and develop a strawman agenda.

Ralph Bonner:

Functional Support Cost Peer Review

Action: Ralph will ask Dennis Pulsipher to notify him of difficulties experienced by the peer review teams. Ralph in turn will forward this information on to Jim Campbell. Also, Jim Campbell will notify the field offices of the need to continue with the peer reviews.

All:

System Improvement Roundtable Discussion

LMES – SAP 4.6 (web version) was installed. The internal time system will be fully integrated into the costing system.

LANL – Improvements were made to the reporting and budget allocation modules and were moved from Sybase to an Oracle database. The Passport Work Management module was installed. The Gartner Group came in and did an assessment of LANL's business systems. Their findings indicated that the LANL data warehouse was a good data warehouse but also recommended that LANL should move away from home grown applications to COTS packages.

LLNL - Oracle 8i data base is being installed. The Oracle Financials 11i upgrade will be installed in 2001-2002. G/L, A/P, Procurement and Projects the Oracle modules currently installed. Planning activities are being transferred to a newer technology and desktop applications are being used more often. Moving toward Oracle Forms 6.0.

WSRC – Installed the Passport maintenance module. They are looking to replace the payroll and human resource systems.

SNL – Oracle 11i is being readied for installation. Looking at an electronic catalog for B2B transactions. Also looking at Oracle Exchange for their RFPs. Oracle developer tools are being used and are moving data to the web. Experiencing lots of “cultural changes” with individual areas relinquishing control to enterprise applications.

INEEL – Has started the Business System Improvement Project that will replace the business legacy systems. For project management P3 is being used for scheduling and COBRA is being used for costing. The supply chain will use the Indus Passport modules of work management, inventory, purchasing, contracts management and accounts payable. The Oracle Financials 11i version will include the general ledger, accounts receivable, accounts payable, projects and grants management. For the HR & payroll system replacements a vendor has not yet been selected. Will continue using Lotus Notes.

Fermi – Implemented property management. Bringing up the PeopleSoft training module. Purchased Oracle Projects and hope to implement based upon funding.

BNL- ¾ way through the PeopleSoft implementation. Will be upgrading to PeopleSoft 8.0 (web based) and will include HR, payroll and travel.

Next FMSIC Meeting

- Baltimore, MD November 14, 2000 followed the next day by the BMIS FM meeting.